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BCUC File 64956

Via E-Mail

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B.C. Utilities Commission  
Suite 410 - 900 Howe Street  
Vancouver, BC V6Z 2N3

File No.: 4.2.7 (2021)

Attention: Patrick Wruck  
Commission Secretary

Dear Mr. Wruck:

**Re: Pacific Northern Gas Ltd.  
Application Regarding Process for Allocation of Reactivated Capacity and  
Approval of Large Volume Industrial Transportation Rate  
Request for Increase to the Reactivation Project Development Costs Deferral Account**

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Pacific Northern Gas Ltd. (PNG) writes to the British Columbia Utilities Commission (BCUC) seeking approval, pursuant to sections 59 to 61 of the *Utilities Commission Act (UCA)*, for an increase in the expenditures allowed to be captured in the Reactivation Project Development Costs Deferral Account from the approved amount of \$1.0 million to \$2.5 million. This increased funding will allow PNG to continue to advance front-end engineering and design (FEED) and other necessary early stage development works prior to the BCUC's approval of PNG's Application for a Certificate of Convenience and Necessity (CPCN) for the Western Transmission Gas System Reactivation and Recommissioning Project (Project) (Project Application), which has been submitted to the BCUC concurrent with this request.

## **Background**

### PNG Request to Establish Deferral Account

On June 28, 2019, PNG filed an application with the BCUC seeking approval of its proposed process for allocation of reactivated capacity and approval of Large Volume Industrial Transportation Rate (RECAP Application). In the RECAP Application, PNG also requested approval to create a \$1.0 million rate base deferral account, the Reactivation Project

Development Costs Deferral Account, to record costs for the initial works required to advance the Project.

In the RECAP Application,<sup>1</sup> PNG identified that the reactivation project work would require two to three years to complete, and that it was prudent to begin the engineering, permitting and consultation processes for the initial works immediately following approval of the RECAP Application and prior to obtaining approval of a CPCN for the Project, and that the advance works could save six to nine months on the project schedule.

The RECAP Application provided a range of possible outcome scenarios that may arise from the RECAP auction process, including a Moderate volume scenario (53 MMSCFD) and a High volume scenario (88 MMSCFD), and identified that each scenario would require different levels of advance work in order to move the Project forward expeditiously. Under a Moderate scenario, PNG had estimated that approximately \$1.0 million in advance works would be required, and under a High scenario, PNG estimated that the advance costs would be \$4.4 million.<sup>2</sup>

At that time, and given uncertainty around the outcome of the RECAP auction process, PNG requested that the Reactivation Project Development Costs Deferral Account be established at \$1.0 million based on the Moderate scenario. PNG notes that in response to BCUC IR 31.1.2<sup>3</sup> it indicated that it believed the \$1.0 million provision was sufficient to complete advance works under the Moderate scenario but it was likely not enough under the High scenario.

#### Prior BCUC Approvals

On February 28, 2020, the BCUC issued Order G-35-20 approving the RECAP Application, including approval to establish the Reactivation Project Development Costs Deferral Account for an amount up to \$1.0 million.

Specifically, directive 8 of Order G-35-20 states:

8. The establishment of a new rate base deferral account to record up to \$1 million in development, permitting and consultation expenses related to the Reactivation Project, is approved.

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<sup>1</sup> Exhibit B-1, RECAP Application, Section 10

<sup>2</sup> Exhibit B-6, PNG response to BCUC IR 52.1

<sup>3</sup> Exhibit B-4

Further, the Reasons for Decision accompanying Order G-35-20 included the following Panel Determination on this matter:

**The Panel approves the creation of the new rate base deferral account to record development, permitting and consultation expenses related to the Reactivation Project as filed, pursuant to section 59 to 61 of the UCA, to capture up to \$1 million in initial works-related costs.** The Panel is satisfied that this account will allow PNG to advance the timelines of the Reactivation Project by 6 to 9 months if the RECAP is successful. This in turn will allow PNG to receive revenue from RS 80 shippers sooner, meaning that the Reactivation Project will benefit ratepayers more quickly.

Given that the deferral account relates to costs that are capital in nature, the Panel is satisfied that the proposed accounting treatment of this new rate base deferral account is reasonable, including the treatment as a rate base deferral account attracting interest at the utility's weighted average cost of capital. Following completion of the Reactivation Project, the amount in the deferral account will become part of the capital costs of the project.

#### **Request for Increase to the Reactivation Project Development Costs Deferral Account**

PNG initiated the RECAP capacity auction in May 2020 and, following the bid evaluation process, has executed Transmission Service Agreements (TSAs) with two parties for a total of 65 MMSCFD, a volume decidedly in between the Moderate (53 MMSCFD) and High (88 MMSCFD) scenarios presented in the RECAP Application. As such, PNG finds itself in a circumstance where the estimated cost of the works to be completed in advance of BCUC approval of the Project are anticipated to be in excess of \$1.0 million.

To date, PNG has incurred costs of \$775,000 for necessary early stage activities for the Project. PNG estimates that it will be required to spend an additional \$1.43 million to \$1.75 million during the period leading up to the anticipated BCUC approval of the Project Application expected in late 2021. Based on the foregoing, PNG hereby requests that the BCUC approval an increase in the threshold for costs allowed to be captured in the Reactivation Project Development Costs Deferral Account, from the previously approved amount of \$1.0 million, to \$2.5 million.

#### Necessity of Development Costs

As identified in the RECAP Application, PNG reiterates these early stage design and development works are required to meet the requested in-service dates of the successful RECAP auction proponents. In the absence of the additional development work PNG risks not

being able to meet the in-service dates of the new industrial customers, the first of which is December 1, 2022.

#### Disposition of Deferred Development Costs

PNG reiterates that it expects to recover the deferred project development costs through the toll for the RS 80 customers under the executed TSAs.<sup>4</sup> However, PNG appreciates that there is the possibility that the Project may not move forward, for a number of reasons. For example, BCUC approval of the Project is a Condition Precedent in the TSAs (Section 4.4(a)(i)), and there is the possibility that PNG is not able to achieve BCUC approval. There is also the possibility that one or more of the TSA counterparty projects will not proceed.

In such instances, PNG would consider the following is determining the disposition of the deferred development costs:

- *Interest on Outstanding Credit Obligations* – At the time of entering into the TSAs, PNG obtained letters of credit for approximately \$8.0 million from the counterparties, with the remaining security requirements being due at the earlier of September 1, 2021 or ten days following the date of BCUC approval of the Project Application. PNG is currently collecting monthly interest on the outstanding security requirements on a non-refundable basis, and in the time between the execution of the TSAs (August/September 2020) to September 2021, PNG expects to collect approximately \$1.1 million in non-refundable interest on these obligations. Should the Project not move forward, this accumulated interest would be applied to offset costs accumulated in the Reactivation Project Development Costs Deferral Account.
- *Counterparty Security* – Under the TSA General Terms and Conditions (Article 17 – Credit Requirements), should a proponent’s project not proceed, PNG has the ability to draw on the letters of credit provided as security to recover any development costs incurred by PNG that are attributable to a particular proponent’s proposed project.
- *Continued Deferral of Costs* – In the unforeseen circumstance whereby the TSA proponent projects do not proceed, PNG remains of the view that the work being contemplated for the deferred development costs will continue to be used and useful for several years for future projects and other potential reactivation scenarios.<sup>5</sup> Therefore, subject to BCUC approval, PNG would consider delaying recovery of the deferred costs for a period of time while it works to attract and secure other new large industrial customers.

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<sup>4</sup> Exhibit B-4, PNG Response to BCUC IR 32.4.1

<sup>5</sup> Exhibit B-1, RECAP Application, Section 10.2

## **Conclusion**

PNG submits that the request to increase the threshold for expenditures allowed to be captured in the Reactivation Project Development Costs Deferral Account from \$1.0 million to \$2.5 million is necessary in order to facilitate the continued advancement of necessary early stage project-related design and development work in the period leading up to the BCUC's anticipated approval of the Project Application in late 2021. Further, in the event that the Project does not proceed, PNG has identified mechanisms available to recover a significant portion of the deferred costs from TSA proponents and, in the event that costs remain unrecovered, PNG reiterates that the underlying works are considered to have continued value. On this basis, PNG submits that approval of the requested increase to the Reactivation Project Development Costs Deferral Account is in the public interest and should be granted as requested.

Please direct any questions regarding the application to my attention.

Yours truly,

*Original on file signed by:*

Verlon G. Otto